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February 7, 2011

Employer Code: 1296
Job Number: P09-060

Florin County Water District
Dawn Leggette, Office Manager
P.O. Box 292055
Sacramento, CA 95829

Dear Ms. Leggette:

Enclosed is our final report on the results of the public agency review completed for the Florin County Water District (District). Your agency's written response did not specifically indicate agreement with the issues noted in the report; however, it did state that the District would work with CalPERS if any adjustments are needed. The written response is included as an appendix to the report. As part of our resolution process, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your agency and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original Signed by Margaret Junker
Margaret Junker, CIA, CIDA, CPA
Chief, Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Lori McGartland, Chief, ERSD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Don Martinez, Interim Chief, EMHS, CalPERS
Honorable Board Members, Florin County Water District
Richard Bedal, General Manager, Florin County Water District

Florin County Water District



Public Agency Review



Office of Audit Services

**Employer Code: 1296
Job Number: P09-060**

February 2011

FLORIN COUNTY WATER DISTRICT

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RESULTS IN BRIEF

We reviewed the Florin County Water District's (District) enrolled individuals, health and retirement contributions, member earnings and required health and retirement documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Incorrect work schedule codes were reported.
- Retirement contributions were not remitted timely.
- Temporary/part-time employees were not brought into membership.
- Required health enrollment forms were not on file.
- Health contribution payments were not submitted timely.
- Health benefit contributions for an employee were not paid in accordance with the District's resolution.

BACKGROUND

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts.

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period.

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Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

The employers' knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

The District was established in 1959 and operates under the California Water Code. As a separate legal reporting entity in Sacramento County, the District provides urban water to approximately 2,213 connections using groundwater pumped from ten wells. A five-member Board of Directors serving four-year staggered terms comprises the governing body. A salary schedule outlines all District employees' salaries.

The District contracted with CalPERS effective November 9, 1981, to provide retirement benefits for local miscellaneous employees. The District's current contract identifies the length of the final compensation period as three years. The District contracted with CalPERS effective August 1, 1986, to provide health benefits to all employees.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the District's payroll reporting and enrollment processes as these processes relate to the District's health and retirement contracts with CalPERS. The objective of this review was limited to the determination that the District complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted on May 27, 2010 and June 7, 2010 through June 8, 2010.

The review period was limited to the examination of sampled records and processes from January 1, 2007 through December 31, 2009. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the contract and subsequent amendments the District had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the District had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the District's personnel and payroll procedures.

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- ✓ Reviewed the payroll transactions and compared the District's payroll register with the data reported to CalPERS to determine whether the District correctly reported employees' compensation.
- ✓ Reviewed the District's payroll information reported to CalPERS to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the District's process for reporting payroll to CalPERS to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed reported payroll to determine whether the payment of contributions and the filing of payroll reports were submitted within the required timeframes.
- ✓ Reviewed the District's enrollment practices pertaining to temporary/part-time employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the District's classification of employees to determine whether the District reported employees in the appropriate coverage groups.
- ✓ Reviewed the District's calculation and reporting of unused sick leave balances for retiring employees.
- ✓ Reviewed employees and their dependents to determine whether the District properly enrolled eligible individuals into CalPERS Health Benefits Program.
- ✓ Reviewed health premium payment information to determine whether the payments were remitted within the required timeframe.
- ✓ Reviewed health contribution payments to determine whether the District contributed the correct employee/employer contribution amounts.

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RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The District may not accurately report compensation to CalPERS.</p>	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of four employees over two service periods. The service periods reviewed were June 2009 (6/09-0) and December 2009 (12/09-0).</p> <p>The earnings reported to CalPERS were reconciled to the District's payroll records. The District accurately reported compensation to CalPERS for the sampled employees.</p>	<p>None.</p>
<p>2. The District may not report payrates in accordance with publicly available salary schedules.</p>	<p>We reviewed payrates reported to CalPERS and reconciled the payrates to the District's public salary information. Payrates for the sampled employees were properly authorized and reported to CalPERS.</p>	<p>None.</p>
<p>3. The District may not accurately report payroll information to CalPERS.</p>	<p>We reviewed service period 12/09-0 to determine whether payroll information was correctly reported to CalPERS. Payroll information reviewed included work schedule codes, pay codes, contribution codes and service period types. Our sample testing revealed the District correctly reported payroll information to CalPERS, except for the following instance:</p>	<p>The District should begin reporting work schedule code 152 for full-time monthly paid employees who work 35 hours per week.</p> <p>The District should work with</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The District may not accurately report payroll information to CalPERS. (continued)</p>	<p>The District incorrectly reported the work schedule code for all full-time monthly paid employees in service period 12/09-0. The District defined the work week as 35 hours for these employees but reported a work schedule code of 173 rather than 152, which is the appropriate work schedule code for a 35-hour week.</p> <p>The CalPERS Procedure Manual, page 99, defines the work schedule code as a 3-digit numeric code, used in calculating both the employer rate and the member's retirement benefit. The work schedule code identifies what the employer considers to be full-time employment for employees in the same work group, such as by department or duties, but not by individual employee. Approved work schedule codes range from 34 to 60 hours per week.</p> <p>The following formula is used to determine the work schedule code for full-time monthly paid employees that work 35 hours per week:</p> $\frac{\text{Number of hours per week (35)} \times \text{52 weeks per year}}{12 \text{ months per year}}$ $\frac{35 \times 52}{12} = 152$	<p>CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the District and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The District may fail to or did not submit payroll in a timely manner to CalPERS.</p>	<p>We reviewed service periods April 2009 (4/09-0), June 2009 (6/09-0), and December 2009 (12/09-0) to determine whether the District submitted payroll information to CalPERS within the required timeframes. Payroll information consists of CalPERS summary reports and retirement contribution payments. Reports and retirement contributions are due within 30 and 15 days, respectively, from the close of the pay period. Our review revealed the following exceptions:</p> <ul style="list-style-type: none"> • Service period 4/09-0: The summary report was received timely but retirement contributions were late. Retirement contributions, due May 15, 2009, were not received by CalPERS until June 5, 2009. • Service period 12/09-0: The summary report was received timely but retirement contributions were late. Retirement contributions, due January 15, 2010, were not received by CalPERS until February 25, 2010. <p>California Code of Regulations, § 565, states, "Member and employer contributions shall be received in the System's Sacramento office on or before 15 calendar days following the last day of the pay period to which they refer."</p>	<p>The District should implement procedures to ensure that retirement contributions are remitted timely to CalPERS.</p> <p>The District should work with CalPERS ERSD to assess the impact of this late payroll reporting and determine what adjustments, if any, are needed.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The District may not enroll all eligible employees into CalPERS membership.</p>	<p><u>Excluded Employees</u></p> <p>The contract CalPERS and the District excluded local safety employees and elective officials from CalPERS membership. The District did not enroll any local safety employees or elective officials into CalPERS membership.</p> <p><u>Temporary/Part-time Employees</u></p> <p>We selected a sample of three temporary/part-time employees and examined the number of hours worked in fiscal years 2007/2008 and 2008/2009 to determine whether they reached or exceeded the 1,000 hour membership eligibility criterion. Our sample testing revealed the three sampled employees exceeded 1,000 hours in a fiscal year and the District did not enroll them into membership. Specifically,</p> <ul style="list-style-type: none"> • In fiscal year 2007/2008, one employee exceeded the 1,000 hour membership eligibility requirement in pay period ending February 2008 and should have been enrolled into CalPERS membership on March 1, 2008. • In fiscal year 2008/2009, two employees exceeded the 1,000 membership eligibility requirement, one in pay period ending March 2009 and the other in pay period ending June 2009. These employees should have 	<p>None.</p> <p>The District should monitor the hours worked by temporary/part-time employees in order to enroll employees into CalPERS membership once the 1,000 hour membership eligibility requirement is met.</p> <p>The District should work with CalPERS ERSD to assess the impact of not enrolling the employees and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The District may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p>been enrolled into membership on the first day of the month following the month in which 1,000 hours of service were completed.</p> <p>Government Code, § 20305(a), states, in part, “An employee serving on a less than full-time basis is excluded from this system unless:...(3)(B) the person works more than...1,000 hours within the fiscal year, in which case, membership shall be effective not later than the first day of the first pay period of the month following the month in which...1,000 hours of service were completed.”</p> <p>Government Code, § 20044, defines a fiscal year as, “Any year commencing on July 1st and ending with June 30th next following.”</p>	<p>sent to the District and CalPERS ERSD as an appendix to our draft report.</p>
<p>6. The District may unlawfully employ retired annuitants.</p>	<p>The District did not hire retired annuitants during the review period. Therefore, we found no instances where retired annuitants were unlawfully employed.</p>	<p>None.</p>
<p>7. The District may not appropriately report members under the proper coverage group code.</p>	<p>Our sample testing revealed that the District reported individuals under the appropriate coverage group code.</p>	<p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>8. The District may not accurately report unused sick leave balances for retiring CalPERS members.</p>	<p>Effective July 1, 2005, the contractual provision of Government Code, § 20965, credit for unused sick leave, became a mandated benefit for the District. No District employees retired during the review period. However, the District confirmed that a divisor of eight would be used to convert unused sick leave hours to days when certifying unused sick leave days to CalPERS.</p>	<p>None.</p>
<p>9. The District may not properly enroll eligible employees and their dependents in health benefits.</p>	<p>We reviewed a sample of four employees to assess health benefits eligibility and enrollment of employees and their dependents. Our sample testing revealed the District properly enrolled eligible employees and their dependents in CalPERS Health Benefits Program, except for the following instances:</p> <ul style="list-style-type: none"> • The District did not have a Health Benefit Enrollment form (HBD-12) on file for the deletion of an enrolled employee's dependent child. • The District did not have required Declaration of Health Coverage forms (HB-12A) on file for sampled employees that had enrolled and/or added dependents to their health coverage. <p>The HB-12A provides information on enrollment options, consequences for non-enrollment and helps ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA). Beginning January 1, 1998,</p>	<p>The District must ensure that the proper member and dependent enrollment documentation is on file at the District within 60 days from the date of our final report.</p> <p>Please send an email to: <i>HBB_Audit_Services@calpers.ca.gov</i> once the requested documentation is on file. The CalPERS HBB may be contacted at (916) 795-3836 with any questions.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the District and CalPERS HBB as an appendix to our draft</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>9. The District may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>employees must sign the HB-12A when first eligible to enroll or when making health coverage changes such as when changing health plans, moving, adding or deleting dependents, or canceling health benefits. Employers must provide the HB-12A with the HB-12 and when employees request enrollment and must provide employees a copy of the signed form, keeping the original in the employee's file.</p> <p>California Code of Regulations, § 599.500(i), states, "Cancellation is the act, by an enrolled employee or annuitant who is eligible to continue enrollment, of filing a Health Benefits Plan Enrollment Form, terminating enrollment in a health benefits plan."</p> <p>Government Code, § 22775, defines family member as, "An employee's or annuitant's spouse or domestic partner and any unmarried child, including an adopted child, a stepchild, or recognized natural child."</p> <p>California Code of Regulations, § 599.500(n), states, in pertinent part, "A child attains the status of 'family member' at birth."</p> <p>CalPERS Health Benefits Program General Reference Manual, page 03-03, states, "The California Public Employees Retirement System (CalPERS), as well as the</p>	<p>report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>9. The District may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>contracting public agencies have a fiduciary responsibility to manage the CalPERS Health Benefits Program in a cost-efficient manner. To assure that only eligible dependents are covered, CalPERS, as well as the contracting agencies, have the right to request any documentation needed to support dependent eligibility at the time of enrollment, or any time thereafter.”</p>	
<p>10. The District may not contribute the appropriate health contribution amounts for active employees.</p>	<p>We reviewed the December 2009 health contributions reported for three sampled employees and determined the District did not contribute the appropriate health contribution for one employee.</p> <p>A resolution filed July 1, 1991, with CalPERS states the District elected to pay health contribution amounts for employees and their family members up to the amount of Kaiser North’s single party monthly premium. In 2009, the Kaiser North single party rate was \$508.30 monthly.</p> <p>The District’s December 2009 Payroll Register indicated the health premium payroll deduction for the sampled employees was \$578.82 of the employee’s \$1,016.60 monthly premium. Although the District paid the \$437.78 remaining balance, this amount was insufficient as it was less than the Kaiser North single party rate of \$508.30.</p>	<p>The District should contribute the amount specified in the health resolution or file an updated resolution with CalPERS specifying the contribution amount to be paid on behalf of active employees.</p> <p>The District should work with CalPERS HBB to assess the impact of this issue and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employees mentioned in this section of the report has been sent to the District and CalPERS</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>10. The District may not contribute the appropriate health contribution amounts for active employees. (continued)</p>	<p>Government Code, § 22890(a), states, "The contracting agency and each employee or annuitant shall contribute a portion of the cost of providing the benefit coverage afforded under the health benefit plan approved or maintained by the board in which the employee or annuitant may be enrolled."</p> <p>Government Code, § 22892(a), states, "The employer contribution of a contracting agency shall begin on the effective date of enrollment and shall be the amount fixed from time to time by resolution of the governing body of the agency. The resolution shall be filed with the board and the contribution amount shall be effective on the first day of the second month following the month in which the resolution is received by the system."</p>	<p>HBB as an appendix to our draft report.</p>
<p>11. The District may not remit health contributions within the required timeframe.</p>	<p>We reviewed the health contribution payments for July 2008, October 2008, June 2009, and October 2009, to determine whether health contributions were received within the required timeframe. Health contributions were due by the 10th day of the month for which the contributions were due. District records showed health contributions were late as follows:</p> <ul style="list-style-type: none"> • July 2008: approximately six days late. • October 2008: approximately five days late. • June 2009: approximately six days late. 	<p>The District should ensure CalPERS receives health contributions no later than the 10th of each month for the month for which the contributions are due.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>11. The District may not remit health contributions within the required timeframe. (continued)</p>	<ul style="list-style-type: none"> • October 2009: approximately six days late. <p>Government Code, § 22899(a), states, in part, "The contributions required of a contracting agency, along with contributions withheld from salaries of its employees, shall be forwarded monthly, no later than the 10th day of the month for which the contribution is due."</p> <p>California Code of Regulations, § 599.515(b), states, in part, "Reports. The agency shall file in the Health Benefits Division on or before the tenth day of each month such reports covering the employees and annuitants enrolled as of the first day of the month as the Board may require, and the total contributions due for each. The report shall be accompanied by payment of the total of such contributions for employees and the employer contributions due for annuitants of the agency enrolled under the program and the employer contribution for administrative costs and the Public Employees' Contingency Reserve Fund."</p>	

FLORIN COUNTY WATER DISTRICT

CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the District's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

Original Signed by Margaret Junker
Margaret Junker, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: February 2011
Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Jodi Epperson
Kelly Dotters Rodriguez

APPENDIX

DISTRICT'S WRITTEN RESPONSE

FLORIN COUNTY WATER DISTRICT

7090 McComber Street
P.O. Box 292055
Sacramento, CA 95829-2055
(916) 383-0808

Diana Thomas
CalPERS

We have reviewed your draft report of compliance for Florin County Water Districts' contract. We will be pleased to work with CalPERS ERSD to assess if there are indeed any adjustments needed. We also invite CalPERS HBB to work with us to determine if any adjustments are needed to the contributions paid on behalf of our active employees.

Thank You,



Richard D. Bedal
General Manager
Florin County Water District